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Guest Column

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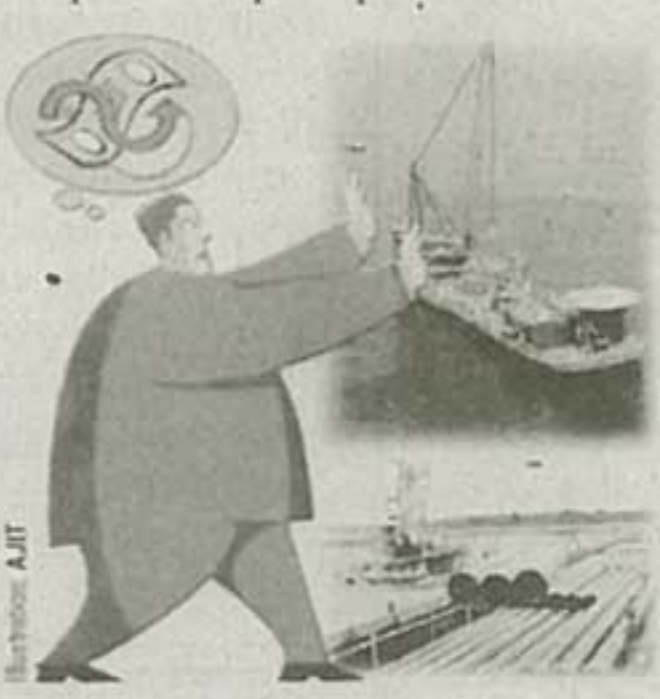
Gas pricing — who cares for users?

PETRONET LNG, a consortium of four oil and gas PSUs—ONGC, Gail, IOC and BPC and a front runner amongst those implementing LNG projects—has reportedly proposed that since cost of imported LNG is likely to be significantly higher than existing price of domestic gas, there will be a 'common' price applicable to each. Logically, this price will be determined by taking a weighted average of their respective cost.

LNG on its own may be priced at 80 per cent of prevailing price of naphtha or about $5.2 per million British Thermal Unit (BTU). The existing price of domestic gas is about $2.0 per million BTU. Current supply of domestic gas being about 70.0 million cubic meter per day (MCMPD) and expected supply of LNG at 34.0 MCMPD, common price would work out to about $ 3.0 per million BTU. But, wait a minute! Contemplated relief to user industries is 'illusory'. This is because price of domestic gas is likely to be increased to about $4 per million BTU any time now. This would yield a common price of about $4.4 per million BTU. Users located in the hinterland will have to pay an additional about $1.0 per million BTU towards transport charge. At $4.4 per million BTU, energy cost of producing a tonne of urea by port-based plants will be about $110. For those located in north/central parts, this will be about $135 per tonne. Including other costs like capital related charges (CRC), other fixed charges and marketing cost, reasonable cost of supplying urea from these plants will be about Rs 9,500 to 10,500 per tonne.



And, since, current selling price of urea is only Rs 4,600, the Government will have to shell out about Rs 5,000 to 6000 by way of subsidy. The energy cost of generating a kilowatt hour (Kwh) of power by a port based plant will be about Rs 1.7 (taking 2000 Kcal for a Kwh).

For a unit in the hinterland, this will be about Rs 2. Adding CRC and other costs, the cost of supplying power will be about Rs 4 to 4.5 per Kwh. As in case of fertilisers, the amount paid by consumers on an average being much lower i.e., about Rs 1.5 - 2.0 per Kwh, a high level of subsidy is inevitable.

Now, that pressure is building up to drastically reduce subsidy leading to its complete elimination (in case of urea, the ERC wants this to be achieved by the year 2006), there seems to be no escape from passing on the high cost of making fertilisers or power to the consumers. Raising the user charges to bring these in line with the reasonable cost of supply is indeed, a major component of the much touted reforms in both the sectors. But, under the existing political climate, even this won't be easy! If, the high cost of gas —whether domestic gas or imported LNG — is neither paid for by end users, nor, it is covered by subsidy support, the viability of fertiliser/power units will be jeopardised.

Under such a scenario, promoters of LNG projects will not remain unaffected. This is because under the 'take or pay' clause, they will have to make payments to suppliers abroad even when, gas is not lifted. Thus, the promoters of Petronet, who have already given payment guarantee, could be in serious trouble!

In view of above, it is absolutely necessary that the financial health of fertiliser and power industries remains in good shape. This would be possible only if, the price of gas is maintained at a 'reasonably' low level. Ideally, the price should not exceed a level of $3 per million BTU.

(The author is a chief economist with the Fertiliser Association of India and views expressed are his own)